

ANNUAL GENERAL MEETING 12 March 2002

Mr Chairman, Dear Shareholders,

During 2001 we continued to pursue our plans for Wärtsilä along the lines we announced in September 2000. Our aim, as we noted then, was to build up a specialized mechanical engineering group. Accordingly we sold roughly one-third of our holding in Assa Abloy, or 20 million shares, in May and our entire holding in Sanitec in June.

Wärtsilä today is a mechanical engineering corporation. We serve on the one hand the global shipbuilding and marine sector and, on the other, the world's power plant markets by providing the most competitive, reliable and environmentally sound solutions. Service is always an integral part of the systems we supply. The Group also includes the special engineering steels manufacturer Imatra Steel. As a producer of special engineering steels, forged components and springs, Imatra Steel works closely with European automotive manufacturers.

Net sales of the Group's main business, the Power Divisions, decreased by five per cent on the previous year. The main shortfall was felt by the Marine Division as the volume of containerships and RoPax ferries declined. Net sales of the Power Plants Division fell by 9 %. Service, by contrast, increased its net sales by more than 12 % and here I would particularly like to single out maintenance and repair services for Sulzer engines, which grew by as much as 15 %.

More important than volume and growth, though, is profitability. Despite the decrease in sales, we reached the same operating profit as in the previous year; our operating profit margin rose to 4.1 % of net sales.

In 2001 we made several decisions that will take our Group towards our vision to lead the ship power and distributed power generation markets by providing the most competitive, reliable and environmentally sound solutions. We aim to support our marine and power plant customers throughout the lifetime of their equipment with high-quality service, operation and maintenance.

Our aim is to expand the company in these areas so that in 2003 our net sales will reach three billion euros and our profitability will almost double from today's level of roughly 4 % to 7-8 %.

The Marine Division's net sales, which represented 25 % of Group net sales, fell 17 % on the previous year. Order books in the shipbuilding industry began to decline last year as expected. The intake of new orders decreased and this trend became more pronounced as the global economy deteriorated towards the year end. We do not expect this trend to

change in the next two years but let me emphasize, however, that shipyard order books are still very high in historical terms and this should give us good reason to be pleased.

Weaker demand is further strengthening competition between shipyards. Wärtsilä has an important role to play in helping shipyards maintain their competitiveness. Through our Ship Power Supplier concept we offer complete propulsion systems; this reduces engineering costs and shortens shipbuilding times. We expect by this concept to more than double our sales potential. This is especially important in view of our target of continuous growth at a time when our traditional markets are not growing and our market shares are already high. The agreement on the acquisition of John Crane-Lips in January supports this strategy; it will add about 235 million euros to Marine's net sales and in the longer term will also raise its profits. The deal is still subject to the approval of the authorities but we expect to receive this in the next few days.

Wärtsilä's power plant business, originally created around diesel engines running on heavy fuel oil, has developed significantly. Last year the Power Plants Division accounted for 32 % of the Group's net sales. It is today a recognized global supplier of plants intended for distributed power generation based on oil, gas, Orimulsion and biofuel in the size range up to 150 megawatts.

The heavy fuel business did not grow last year whereas demand for gas-fuelled power plants developed well in the first half of the year, particularly in the USA. In June we gained the largest order for a gas power plant in our history, the 110 MW power plant for Plains End in Colorado. The tragic events of September 11<sup>th</sup> resulted in the delay of several promising projects. On the other hand demand grew favourably in Latin America and at the end of the year we gained the largest power plant order in our history in terms of contract value; a 160 MW power plant to Guatemala worth over 130 million euros.

In the spirit of the Kyoto agreement, much of the world is today putting strong emphasis on reducing carbon dioxide emissions. The share of renewable power as part of total power production will increase, supported for example by initiatives within the EU. This was the impetus for Wärtsilä's entry into biomass burning technology through the acquisition in the autumn of Sermet Oy, a leading Finnish manufacturer of small biomass-burning power plants. We intend to leverage our established worldwide sales and project handling capabilities for selling and commissioning small biopower plants globally.

To safeguard our ability to apply the latest power plant technologies we have established a specialist group to monitor the development of fuel cell technology. This will ensure that we are ready to launch suitable applications of this technology once it becomes technically and commercially viable. This is a long-term project which will not have commercial value for a number of years but it is widely believed to have strong potential in the long run.

Our Service business grew in 2001 in line with our long-term objectives by 12.6 %. We consider extended maintenance and operation a strategic focus area. Service, operation and maintenance in Wärtsilä today involves close to 5,000 of our employees, a significant increase if we compare it to the situation in 1997, for example. By the end of the year, Wärtsilä operated approximately 1,700 MW of power plants at 80 locations and we had several big additional projects under negotiation. We believe that the extended maintenance concept will gradually gain acceptance not only in power plants but also in the marine sector. The acquisition of Ciserv in Gothenburg, Sweden, complements our network by offering a wide selection of ship service activities. This was given a further boost last month when we acquired the service operations of Metalock, which operates in Singapore.

In 2001 we took important steps within our Power Divisions towards reaching the 7-8 % EBIT margin target that we have set for 2003. Since we consider the profitability of our Power Divisions to be decisive to raising the value of our Group, we initiated further measures to rationalize our product portfolio and production processes during the year to improve profitability.

It became evident last year that market demand will not support the engine manufacturing capacity currently available in the Group. At the end of the year, we started negotiations with the parties involved with the aim of discontinuing our activities in Zwolle and transforming our local company in the Netherlands into a sales and service unit. These negotiations have made rapid progress and we expect these decisions, along with other streamlining measures, to result in a considerable improvement of profitability in 2003. We entered a provision of 122 million euros in last year's accounts to cover the costs of these measures.

Imatra steel, a wholly owned company within the Wärtsilä Group, supplies the European automotive and engineering industries with special steel products. The recessionary trends within the world economy hit the steel industry severely during the year. With truck production in Europe falling 8 % Imatra Steel was not spared the effects of weaker demand and its net sales decreased by 4 %. Its profitability suffered as a result of lower delivery volume and the weakening of the Swedish krona.

However, Imatra Steel consolidated its position as a key supplier of forged components to the automotive industry with the acquisition of a forge in the United Kingdom – today called Imatra Stampings.

A major factor in the Group's result last year was the significant one-time capital gain on the sale of the Sanitec and Assa Abloy shares. On the other hand we entered the provision for restructuring costs I just mentioned.

On a per share basis, the Group's result of operations was 1.40 euros per share and the impact of the non-recurring items I just mentioned was 4.13 euros per share. We have

noted earlier that we will employ the funds contained in our Sanitec and Assa Abloy holdings for long-term development in the company and for extra dividends. The Board's decision to propose to you today a normal dividend of half a euro and an extra dividend of 3.5 euros per share is a step along this path.

Mr Chairman, Dear Shareholders,

I am convinced that the measures we initiated last year support the Group's growth and continuous improvement of its profitability. I feel the company has the intellectual, physical and financial resources for success in our competitive global markets.